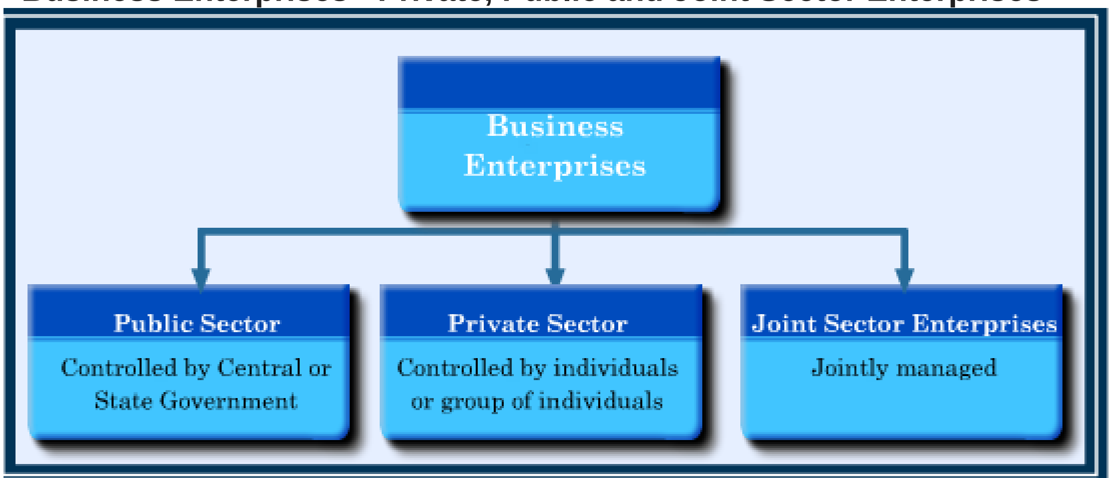
Private, Public and Global Enterprises

PRIVATE, PUBLIC AND GLOBAL ENTERPRISES

Business Enterprises - Private, Public and Joint Sector Enterprises



The three enterprises are distinguished on the basis of ownership, management and control.

➢ **Public Sector Enterprise-** This type of enterprise is wholly or partially managed and controlled by ***the central or state government***.

➢ **Private Sector Enterprise-** This type of enterprise is managed and controlled by ***individuals or a group of individuals***.

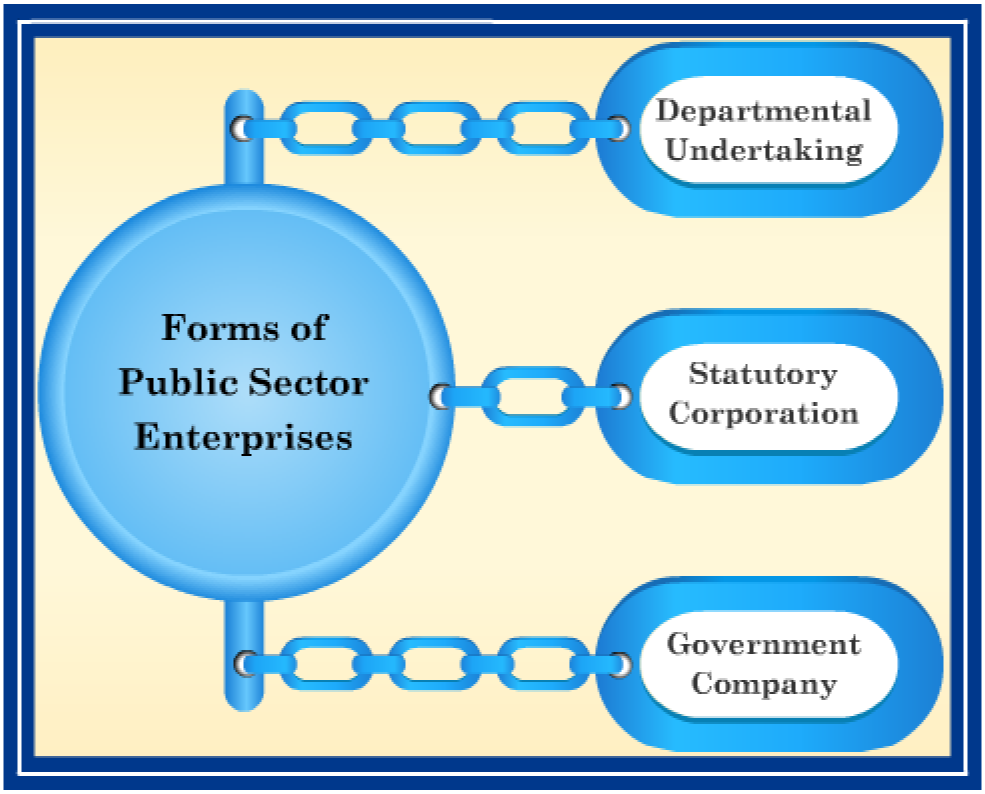
➢ **Joint Sector Enterprise-** This type of enterprise is ***jointly managed and controlled*** by both individuals and the government.

➢ **Difference between Private and Public Sector Enterprises**

Basis of Difference	***Private Sector Enterprise***	***Public Sector Enterprise***
Ownership	Owned by private individuals	Owned by the state or the central government
Prime objective	Profit	Public welfare
Management	Managed by professional managers	Managed by bureaucrats
Accountability	Accountable to owners	Accountable to the public
Political interference	Less	Comparatively more
Decision making	Fast	Comparatively slow

❖ **Forms of Public Sector Enterprises**

➢ The following picture depicts the various forms of public sector enterprises:



❖ **Departmental Undertaking (DUs)**

➢ **Meaning:** Such enterprises work directly under the ministries of the government, with no separate legal existence. They have a high degree of accountability towards the public.

➢ **Features of Departmental Undertakings**

The following are the major features of departmental undertakings:

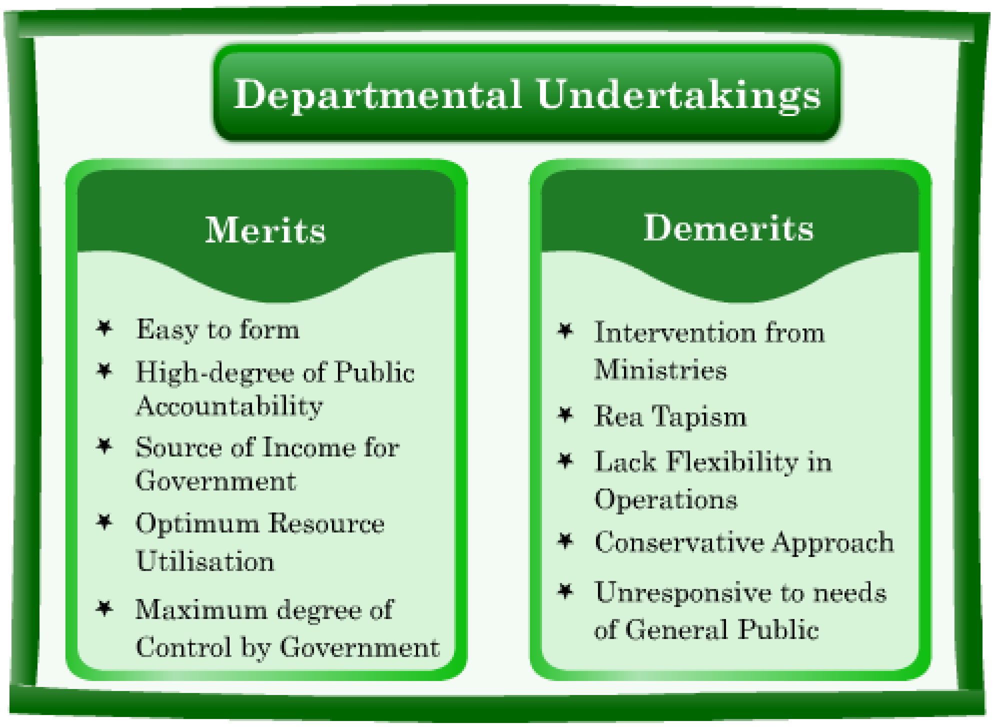
i. These enterprises are ***provided funds from the annual budget*** and the treasury of the Government of India.

ii. The employees in these enterprises are the ***servants of the government*****,** as directed by the IAS.

iii. These enterprises are regarded as the ***subdivisions of the government*****;** they are under the direct control of the concerned ministry.

iv. These enterprises are ***liable to the ministries*** that manage and control them.

v. These enterprises are ***subject to government audit*** as applicable to other government activities.



➢ **Merits of Departmental Undertakings**

The following are the merits of departmental undertakings:

i. They are set up under an Act of Parliament and hence are ***easy to form***.

ii. As these enterprises work directly under the ministries of the government, they have a ***high degree of public accountability***.

iii. The revenue earned by these enterprises directly goes to the government treasury and therefore is a ***source of income for the government***.

iv. Strict accounting and auditing controls ensure ***optimum utilisation of resources***.

v. These enterprises have ***maximum degree of control by the Parliament*****,** as they are set under an Act of Parliament.

➢ **Limitations of Departmental Undertakings**

The following are the limitations of departmental undertakings:

i. These enterprises face ***intervention from the concerned ministries*** that control and manage them.

ii. The operations of these organisations often involve ***red tapism*** in the form of tedious paperwork and excessive regulations before the actual official action is taken.

iii. Because these enterprises are strictly under the control of ministries, they are not independent in any form of decision making and therefore ***lack flexibility in operations***.

iv. These enterprises normally avoid undertaking risky projects; thus, they are said to be ***conservative in their approach***.

v. Because of lack of competition and inefficient management, these undertakings are often considered ***unresponsive towards the needs of the general public***.

➢ **Suitability**

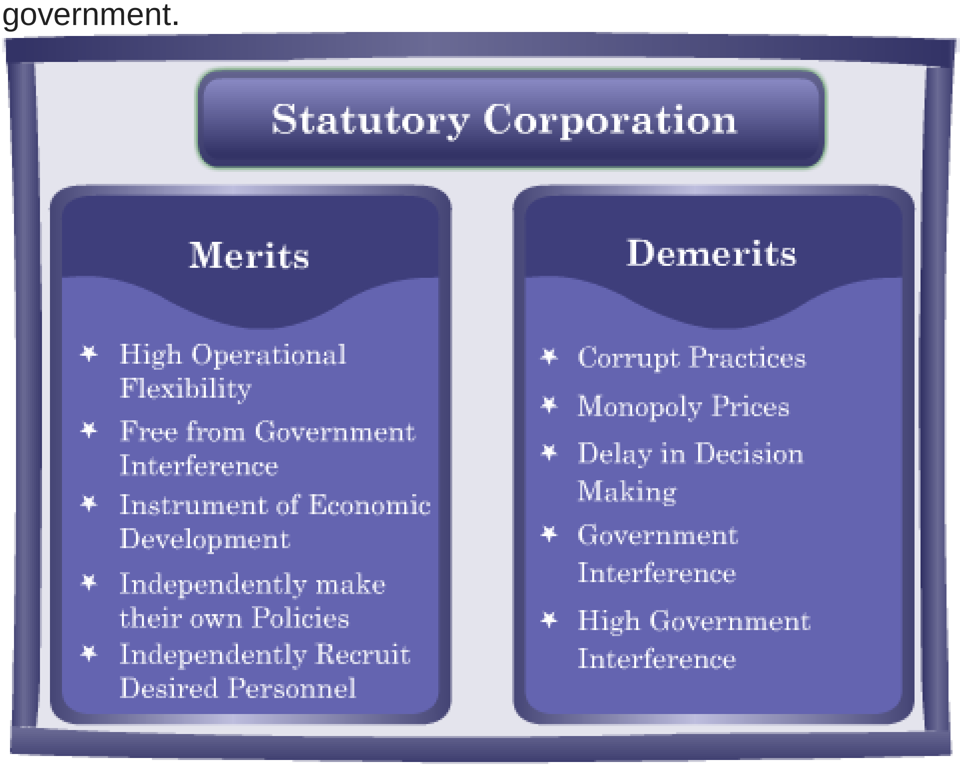
- Departments/projects where ***high secrecy*** is to be maintained
- Where the government wishes to practise a ***high degree of control*** over operations
- In cases where the undertaking has to be established for ***revenue generation and investment***

❖ **Statutory Corporation**

➢ **Meaning:** It is formed by passing a special Act of Parliament; it is an initiative of private enterprises having the powers of the government.

➢ **Features of Statutory Corporations**

i. These corporations are ***set up under an Act of Parliament*****,** with the objectives and power as defined by the Act.
ii. They are ***wholly owned by the state*****,** with ultimate financial responsibility (both profit and loss) on the government.
iii. These corporations are **independently financed;** they can either borrow from the government or raise funds from the general public as per their discretion.
iv. The employees of these corporations are ***not governed by any rules or regulations of the government***.
v. These corporations are ***independent corporate bodies*****;** they can be sued by others as well as can sue others and can enter into legal contracts in their own names.
vi. These corporations are ***not subject to accounting and auditing procedures*** of the government.



➢ **Merits of Statutory Corporations**

The following are some of the merits of statutory corporations:
i. These corporations enjoy ***high operational flexibility*** independence.
ii. They are ***free from undesirable control and interference*** by the government. This is because they are funded independently.
iii. As these corporations are the initiative of private enterprises with the power of the government, they can be an ***important instrument of economic development***.
iv. As these corporations are autonomous in nature, they ***independently make their own*** policies and rules as per the powers given to them.
v. They can ***independently recruit the desired*** personnel according to their requirements.

➢ **Limitations of Statutory Corporations**
The following are the major limitations of statutory corporations:

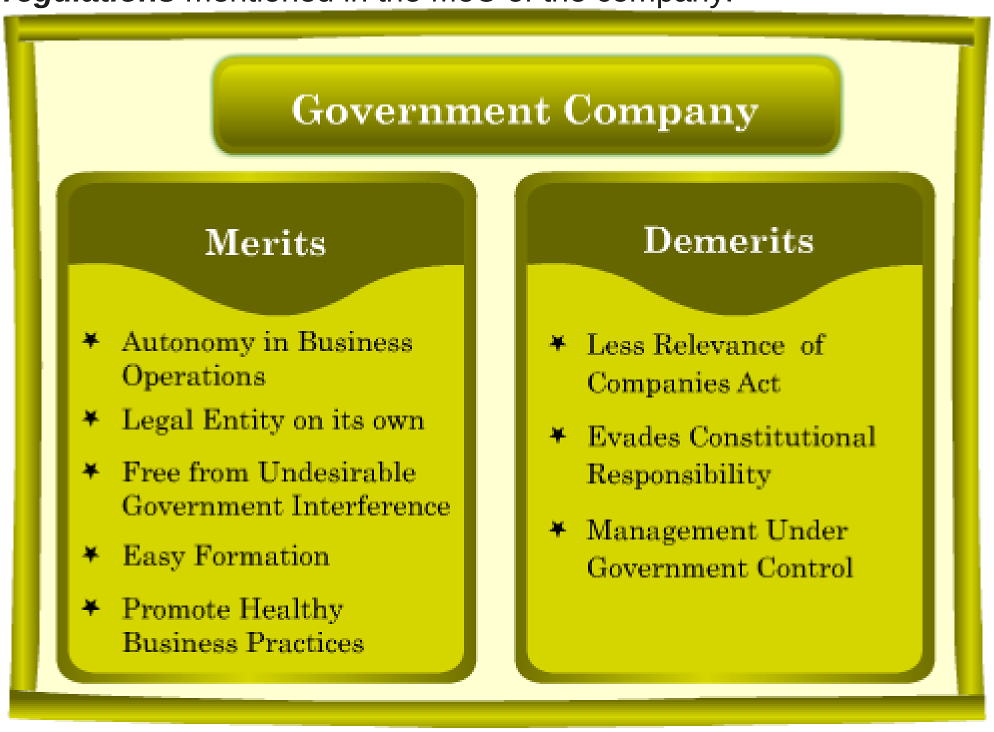
i. The ***operational flexibility is false*** in the sense that they are subject to too many rules and regulations by the government.
ii. They face high government interference, especially in cases where a huge amount of money is involved.
iii. ***Corrupt practices*** while dealing with the public is one of the major problems faced by these corporations.
iv. ***Necessary appointment of advisors*** by the corporation board ***curbs the freedom*** of these corporations and leads to ***delays in the decision-making process***.
v. These corporations often enjoy a high degree of ***monopoly*,** as a result of which, they ***may charge high prices***.

➢ **Suitability**
◦ In cases where the undertaking ***requires certain powers that are defined under the Act***
◦ In cases where ***regular grants are required*** by the undertaking.
◦ In cases where a ***combination of public accountability and operational autonomy*** is required

❖ **Government Company**
➢ **Meaning:** It is a company as established under the Indian Companies Act, 1956, with at least 51% of the shares held either by the central or state government.
➢ **Reasons why a government company form of organisation is preferred over other forms in the public sector**
a. ***Maximum autonomy*** in the managerial actions and decision-making processes
b. ***No undue interference*** by the concerned department in its operations
c. ***Separate legal entity***
d. Provides goods and services at ***reasonable rates*** and at the same time also ***ensures fair marketing activities***.

➢ **Features of Government Company**

The following are some of the features of a government company:
i. It is established under ***the Indian Companies Act, 1956***.
ii. It is ***exempted from the accounting*** and audit rules and procedures.
iii. It enjoys ***independent funding*;** it can generate funds from government shareholders, private shareholders and even capital markets.
iv. It is a ***separate legal entity***. Accordingly, it can enter into legal contracts and acquire property in its name.
v. The provisions of the ***Companies Act regulate the management*** and operations of a government company.
vi. The ***staffing*** process of a government company is ***subject to the rules and regulations*** mentioned in the MoU of the company.



➢ **Merits of Government Company**
The following are the merits of a government company:

i. It enjoys ***autonomy*** in the daily business operations and management decisions.
ii. It is a ***legal entity of its own,*** separate from the government.
iii. It is free from undesirable interference from the government.
iv. It provides goods and services at reasonable rates, thereby ***promoting healthy business practices*** in the society.
v. The ***formation*** of a government company ***is easy*,** as a statute is not required to be enacted for its formation.

➢ **Limitations of Government Company**
The following are the limitations of a government company:

i. The ***provisions of the Companies Act do not stand much relevance*** in case of a

government company; the government is the major shareholder in such companies.
ii. It ***evades constitutional responsibility*** despite the fact that it is funded by the government.
iii. The ***management of a government company largely remains under the government control*****,** as the government is the sole/major shareholder.

➢ Suitability

- In cases where the ***government wants to exercise control over a private sector company***
- In cases where the ***government wants to collaborate with a private company***
- In cases where the ***projects are big and require government funding***

➢ *Difference between Three Forms of Public Sector Enterprises*

Basis of Difference	***Departmental Undertaking***	***Statutory Corporation***	***Government Company***
Formation	By the ministry	Formed as per the special Act of Parliament	Formed as per the Indian Companies Act, 1956
Ownership	Wholly owned by government departments	Wholly owned by the state	At least 51 per cent shares are owned by the central or state government
Capital financing	Budgetary allocated; cannot borrow from the public	May borrow from the government and the general public	May borrow from the government, private shareholders and the general public
Public Accountability	Highest degree of accountability	Higher degree of accountability	High degree of accountability
Legal status	No separate entity	Separate entity	Separate entity
Suitability	Public utilities, defence	Commercial and industrial undertakings	Commercial and industrial undertakings that allow private capital participation

❖ Changing Role of the Public Sector

The following points highlight the role of public sector enterprises in India:
i. ***Infrastructural development*****:** Development of infrastructure facilities involved ***heavy initial investment and long gestation periods; these factors discouraged the private sector from taking initiatives to undertake these projects. Hence, the public sector*** came into play.

ii. ***Balanced regional growth*****:** To bring about regional balance, ***PSEs were set up in backward and rural areas*****;** they not only provided employment in these areas but also encouraged the development of ancillary units (or supporting industries). For this, the following measures were adopted by ***Government of India***.
a. During the 1950s, the Government of ***India established four major steel plants in rural areas*** with the basic rationale of promoting the growth and development of these areas.
b. The steels plants and similar enterprises in rural areas provided ***employment opportunities*****,** thereby encouraging the people living in those areas to earn ***high income and enjoy a better standard of living***.
c. The setting up of the industries created various ***forward and backward linkages***.
d. The establishment of industries in rural and backward areas ***necessitated infrastructure development*****,** which improved the connectivity of these areas with the rest of the country.

iii. ***Economies of scale*****:** Large-scale industries, such as natural gas and petroleum, enjoyed ***economies of scale. However, they required huge capital investments*****,** which discouraged the private sector to initiate these industries. Hence,

the public sector was required to start and operate these industries.
iv. *Import substitution and export promotion*: To achieve self-sufficiency, India aimed at restricting imports and maximising exports. Thus, ***PSEs were established to manufacture heavy machinery and engineering goods domestically so as to restrict imports. Simultaneously, PSEs such as the Metals and Minerals Trading Corporation of India (MMTC) and the State Trading Corporation (STC) were established with the aim of expanding exports***.
v. *Checking over concentration of power*: Public sector units ensured a check over concentration of power to minimise the chances of monopoly.

❖ Role of Public Sector since 1991

a. *Restricting the role assigned to the public sector:* The ***number of industries exclusively reserved for the public sector was drastically reduced from 17 in 1956 to just 8 in 1991*.**
This resulted in an increased competition in the market.
b. *Disinvestment of shares of selected public sector enterprises (PSEs)*: The following were the rationale for the disinvestment of PSEs:
i. *Release of resources by PSEs: Reservation* of the industries ***meant that*** a large amount of ***public resources remained blocked*** in these PSEs. With ***disinvestment, these funds could be released*** and utilised in other important areas.
ii. *Transfer of risk*: Disinvestment meant ***transfer of commercial risk to the private sector*,** which ensured availability of funds for other important areas.
iii. *Reduction of public debt*: Disinvestment helped in ***reducing the burden of public debt as well as interest rate obligations*** of the PSEs.
iv. *Introduction of corporate governance*: Disinvestment reduced the control of the government over the PSEs and ***corporate governance was set with greater discipline and professionalism***.

c. *Policy regarding chronically sick units*: The Board for Industrial and Financial Reconstruction (BIFR) was set up for the revival and reconstruction of the sick PSEs. Similarly, the National Renewal Fund was set up in February 1992 to protect the interests of the workers and employees of these industries.
d. *Memorandum of Understanding*: According to this system, PSEs were given ***specific targets along with greater autonomy*** to achieve those targets. This aimed at improving the performance of PSEs.

➢ Difference between Privatisation and Disinvestment

Basis of Difference	Privatisation	Disinvestment
Meaning	Transfer of management and ownership from a state-owned enterprise to a private enterprise	Selling off a part of equity or shares of a public sector enterprise to a private sector enterprise
Degree of transfer	Complete transfer of ownership to the private sector	Partial transfer of ownership to the private sector

Implication	Privatisation does not necessarily imply disinvestment.	Disinvestment necessarily leads to privatisation

❖ **Global Enterprises/MNCs**

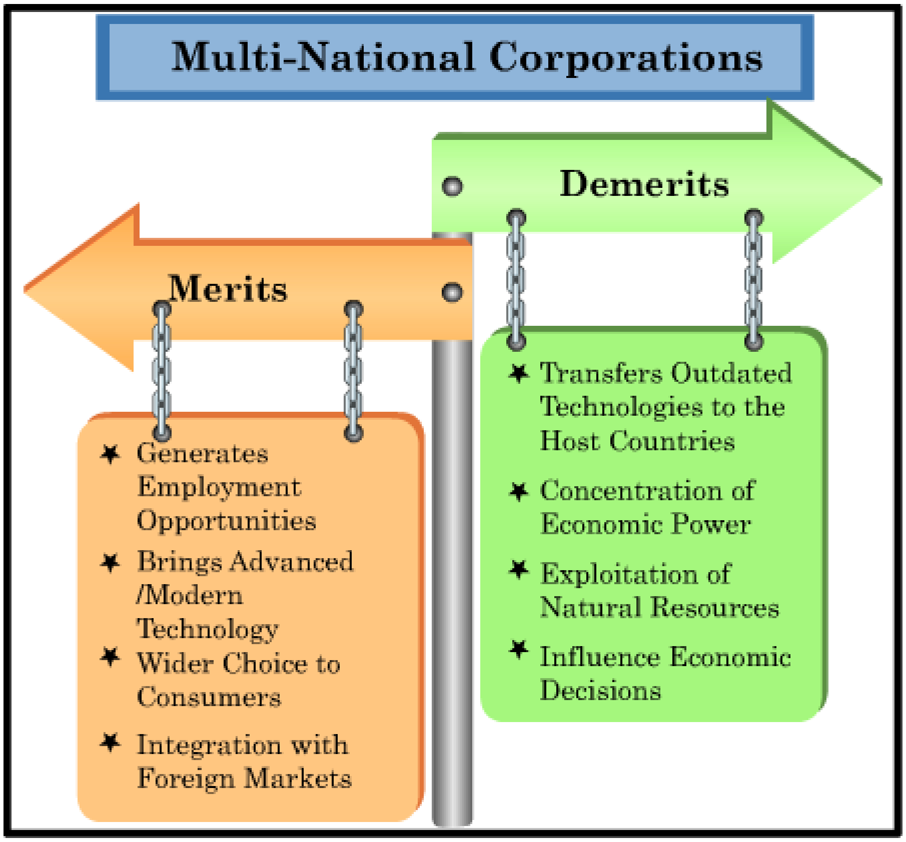
➢ **Meaning:**
An MNC or a global enterprise is a business enterprise that has its operations in various countries, with its headquarters in one of the countries.

➢ **Features of Global Corporations**
The following are the features of global corporations:

i. They enjoy a ***huge capital base*** and resources. In addition, they can also ***borrow from international banks*** owing to their strong standing and goodwill in the market.
ii. Usually, MNCs ***enter the international market by collaborating with local, public or private companies***.
iii. These companies ***invest a huge amount of money in the research and development of the latest technology***; this helps them to continuously work towards inventing new and superior products, thereby maintaining a higher market position.
iv. MNCs usually ***have well-defined research and development centres for the invention and innovation*** of new products.
v. Because of the large-scale operations of MNCs in different countries, they ***enjoy a good image in the international market***.
vi. MNCs generally ***hire trained and skilled professionals*** who specialise in working in different areas of operations.

vii. *Marketing strategies used by MNCs are more effective*, as they use better technology and information system.
viii. *MNCs have a centralised control* in the sense that the management and control of MNCs lie in the hands of the parent company, i.e., the headquarters.

➢ Benefits of MNCs to Host Countries



The following are the merits of global corporations to the host countries:
i. MNCs generate numerous ***employment opportunities*** in the host countries mainly because of their large-scale operations.
ii. They ***bring with them advanced and modern technology*** to the host countries.
iii. They provide a ***wider choice to the consumers*** along with superior quality; this, in turn, helps in improving the standard of living of the people in the host countries.
iv. MNCS ***enable the integration of host countries with foreign markets***.

➢ Disadvantages of MNCs to Host Countries

The following are the disadvantages of global corporations to the host countries:
i. MNCs ***may transfer outdated or obsolete technology*** from their home country to the host countries. This may hamper the growth and development of the host countries.
ii. In some cases, MNCs collaborate with the leading industries in the host countries; this leads to ***monopoly and concentration of the economic power*** in the hands of a few individuals.
iii. To maximise their profits, MNCs sometimes ***exploit the natural resources (present in the host countries) to a large extent***. As a result, the non-renewable resources of

the host countries deplete over a period of time.
iv. MNCs are ***giant corporations*** in terms of the economic and financial resources invested in them. This gives them the ***power to influence the political affairs and economic decisions*** of the host countries.

❖ **Joint Ventures**

➢ **Meaning:** This type of organisation is jointly formed by two or more organisations for mutual benefits. Business organisations engaged in a joint venture share not only their physical, financial and human resources but also the risks and profits of their businesses.

➢ **Types of Joint Ventures**

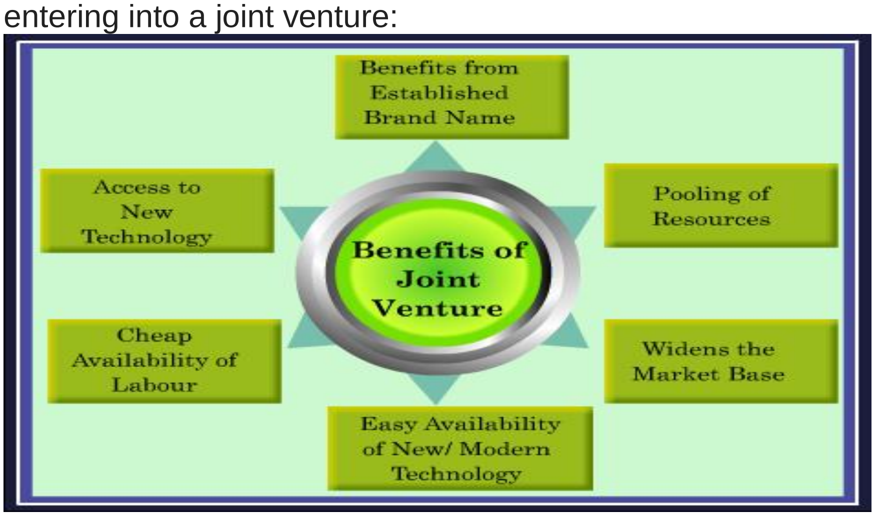
a. Contractual Joint Venture:
Agreement to work together; no new entity formed. E.g. Franchisee
1. Both (or more) parties should have a common intention of running the business venture
2. Each party should bring inputs
3. Both parties should have some control on the venture
4. The relationship should have a relatively longer duration

Form:
a. Foreign company can buy portion of equity shares of existing local company
b. A local company can acquire portion of equity shares in another existing local company

b. Equity-based Joint Venture:
Agreement to work together by creating a new entity; ownership is by two or more parties. E.g. LLP, Partnership, Company, etc.
1. Creation of new entity
2. Ownership, management, responsibilities and profits and losses are shared as per agreement

Form:
a. Foreign company and local company can join hands to form a new enterprise

➢ **Benefits of Joint Ventures**The following are the benefits that a firm derives by entering into a joint venture:



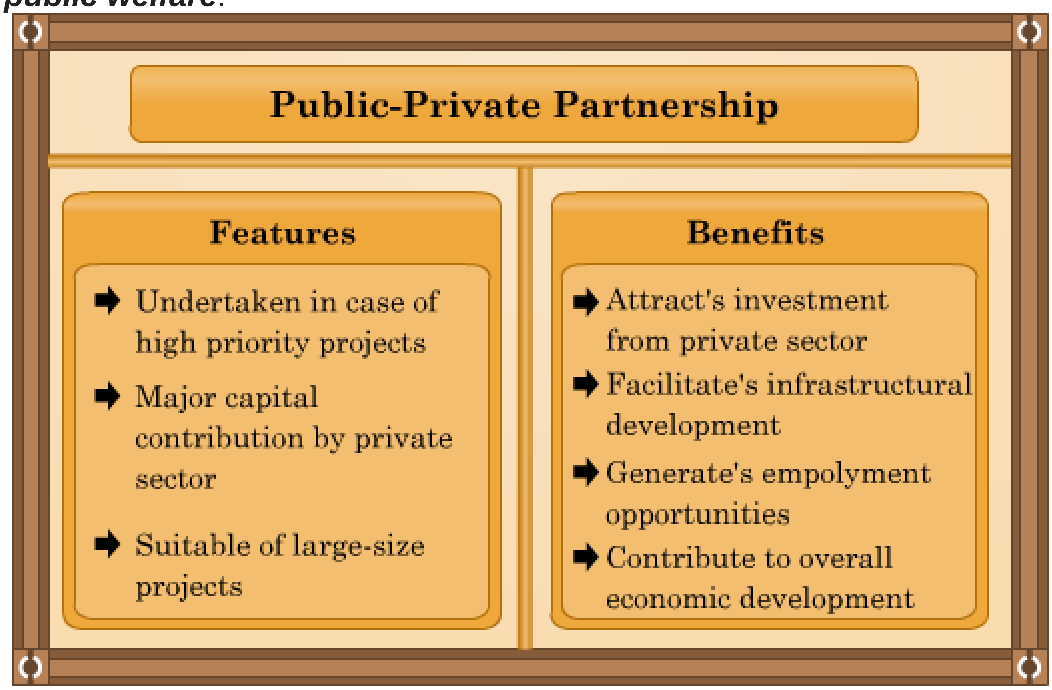
i. In a joint venture, ***the resources and the operational capacities of individual organisations are pooled*** together; this enables them to grow and expand.
ii. Entering into a joint venture with units in different regions ***widens the market base for each enterprise***.
iii. Because of lesser amount of investment and effort required at the individual level, ***new and modern technology can be easily obtained***.
iv. Foreign companies entering into a joint venture with companies in the developing countries can take ***advantage of the availability of large and cheap labour***.
v. A joint venture, especially with a foreign partner, ***gives access to new ideas and technology*;** this, in turn, promotes the innovation of new products. This further helps the businesses to grow and expand.
vi. With two companies joining hands, ***one of the companies may benefit from the already established brand name of the other***.

➢**Public–Private Partnership**

➢ **Meaning:** It is an enterprise or a project that is jointly run and operated by the government and a private enterprise.

➢ **Features of Public–Private Partnership**

i. These partnerships are ***undertaken in case of high priority projects*** that are of national importance.
ii. The ***major capital contribution is done by the private sector*** enterprise.
iii. It is ***suitable for the projects that are large in size*** and are undertaken for the ***public welfare***.



➢ **Benefits of Public–Private Partnership**

i. It is ***helpful in attracting huge investments from the private sector***.
ii. It ***facilitates infrastructural development and social welfare***.
iii. It helps in ***generating large employment opportunities***.
iv. It ***contributes to the overall economic development*** by creating employment opportunities for the people.